



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	01/13/00	Bill No:	AB 1664
Tax:	Property Taxes	Author:	Soto
Board Position:		Related Bills:	SB 1393

BILL SUMMARY:

This bill makes permanent the current property tax exemption amounts for totally disabled veterans, which are otherwise scheduled to be reduced on January 1, 2001.

ANALYSIS:

Current Law:

The disabled veterans' exemption applies to the home of a qualified veteran or their surviving unmarried spouse. Depending on the nature of the disability and also the veteran's income, the law provides for an exemption in the amount of \$40,000, \$60,000, \$100,000, or \$150,000 of the full cash value of the property, as noted in the table below. In practice, the disabled veterans' exemption is generally granted in either \$100,000 or \$150,000 amounts. This is because, although the law specifies a different exemption for veterans who are blind or who have lost the use of two or more limbs, the Veterans' Administration classifies these injuries as total disability, qualifying the veteran for the higher exemption amount.

Current law establishes, until January 1, 2001 the following exemption amounts:

Disability Type	Basic Exemption	Low Income Exemption ¹
<ul style="list-style-type: none">• Blind²• Lost Two or More Limbs³	\$40,000	\$60,000
<ul style="list-style-type: none">• Totally Disabled• Active Duty Death	\$100,000	\$150,000

¹ For persons who have qualified for the exemption in or before 1983, the income limit is \$34,000; for persons who became qualified after 1983 the income limit is reduced to \$24,000.

² The Veterans' Administration defines these injured veterans as "totally disabled." Thus, they instead may qualify for the \$100,000 or \$150,000 exemption.

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Beginning January 1, 2001, the exemption amount for virtually all persons who are receiving the exemption will be reduced to \$40,000, or to \$60,000 for persons with household incomes below either \$24,000 or \$34,000, as specified.

Disability Type	Basic Exemption	Low Income Exemption
<ul style="list-style-type: none"> • Blind • Lost Two or More Limbs • Totally Disabled • Active Duty Death 	\$40,000	\$60,000

Proposed Law:

This bill would make permanent the current exemption amounts, thereby preventing an otherwise scheduled reduction in the maximum exemption amount for those currently receiving the exemption, from \$100,000 of assessed value to \$40,000, and for those with low incomes from \$150,000 of assessed value to \$60,000.

In General:

There are two property tax exemptions available for persons who have served in the military: 1) the veterans' exemption and 2) the disabled veterans' exemption.

Veterans' Exemption

The veterans' exemption applies to any property subject to property tax (for instance, real property; property used in a trade, profession or business; boats; or planes) owned by an eligible veteran. The exemption is also available to the unmarried surviving spouse of the veteran and the parents of a deceased veteran. The exemption is in the amount of \$4,000 of full cash value, providing up to \$40 of tax savings. However, the exemption is nearly extinct. At its peak, from 1956 through 1962, over one million persons received the veterans' exemption. Today, fewer than 125 veterans receive the exemption.

The decline of the veterans' exemption is due to two factors. First, the increase of the homeowners' exemption in 1974 to an amount greater than the veterans' exemption.⁴ The homeowners' exemption, in the amount of \$7,000 of full cash value, provides greater tax savings of up to \$70. Consequently, veterans who own homes switched to the homeowners' exemption available to any Californian. Secondly, the inability of the remaining non-home owning veterans to qualify for the veterans' exemption due to strict wealth limitations fixed in the constitution. Those limitations are a personal wealth cap of \$5,000 for an unmarried veteran and \$10,000 for a married veteran, as specified. (See Revenue and Taxation Code §205, Section 3, of Article XIII of the Constitution.)

⁴ The homeowners' exemption was first adopted via constitutional amendment (Proposition 1A; 1968 Cal. Res. 9, extra session in 1968, SCA 1). The exemption increased from \$3,000 to its current level of \$7,000 via a second constitutional amendment in 1974 (Proposition 6, 1974 Cal. Res. 77 SCA 26).

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Disabled Veterans' Exemption

Section 4(a) of Article XIII of the California Constitution grants the Legislature the authority to exempt from property tax, in whole or in part, the home of a person (or a person's spouse) who is injured in military service. This exemption is commonly referred to as the "disabled veterans' exemption." Injuries that qualify a veteran for the exemption include: 1) total disability, 2) blindness or 3) lost use of two or more limbs. The spouse of a disabled veteran is able to maintain the exemption after the veteran's death as long as the spouse is unmarried. Additionally, since 1994, the unmarried spouse of a person who, as a result of a service-connected injury or disease, dies while on active duty is able to qualify for the disabled veterans' exemption.

Section 205.5 of the Revenue and Taxation Code implements the Legislature's authority to provide a property tax exemption for disabled veterans and/or their unmarried surviving spouses. As noted in the table above, the amount of the exemption depends upon 1) type of injury and 2) household income. Exemption amounts are higher for claimants who have a household income below the amounts specified in Section 20585, which sets forth the maximum income levels for eligibility in the Senior Citizens and Disabled Citizens Property Tax Postponement program administered by the State Controller's Office. For persons who have qualified for the program in or before 1983, Section 20585 sets an income limit of \$34,000; for persons who became qualified after 1983 the income limit is reduced to \$24,000.

Disability Definitions

- Being blind in both eyes means having a visual acuity of 5/200 or less.
- Losing the use of a limb means that the limb has been amputated or its use has been lost by reason of ankylosis, progressive muscular dystrophies, or paralysis.
- Being totally disabled means that the United States Department of Veterans Affairs or the military service from which the veteran was discharged has rated the disability at 100 percent or has rated the disability compensation at 100 percent by reason of the veteran being unable to secure or follow a substantially gainful occupation.
- Whether a death that occurs while the person is on active duty is a result of a service-connected injury or disease, is a determination made by the United States Department of Veterans Affairs.

Background:

Two previous bills have postponed the trigger of the sunset date that reduces the amount of the exemption. SB 320 (Chap. 1077, Stats. 1989) extended the sunset date to January 1, 1991 and AB 3 (Chap. 536, Stats. 1995) extended the sunset date to January 1, 2001.

In 1998, the homes of 15,563 persons received the disabled veterans' exemption. The 10 counties with the most homes receiving the exemption include: San Diego (2,813), Los

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Angeles (1,359), Sacramento (1,136), Riverside (888) Orange (848), Solano (769), San Bernardino (734), Monterey (669), Contra Costa (501) and Alameda (466).

COMMENTS:

1. **Sponsor and Purpose.** This bill is sponsored by the author for the purpose of permanently retaining the current level of exemption provided to disabled veterans' on their home. The author's press release on this bill states: "Disabled veterans will no longer have to worry about whether or not this exemption will continue. These veterans fought and sacrificed for our freedom, the least we can do is help them with their property taxes."
2. **Without this Bill the Property Taxes of Disabled Veterans and their Spouses Will Increase Next Year.** For those currently receiving the \$150,000 exemption, taxes may increase up to a maximum of \$900 per year. For those currently receiving the \$100,000 exemption, taxes may increase up to a maximum of \$600 per year.
3. **Making the Current Exemption Level Permanent Eliminates the Need for Future Legislation.** If enacted, this measure would be the third time legislation has been necessary to prevent the lower exemption amounts from being triggered. Making the current level of the exemption permanent, rather than extending the sunset date, would eliminate the need to enact legislation in the future.
4. **Related Legislation; Chaptering Out Issues.** SB 1393 (Leslie) also deletes the sunset provision and makes other changes to Section 205.5. To prevent the other items included in SB 1393 from being chaptered out, in the event both are chaptered and this bill is chaptered last, double joining language would be required.
5. **Current Law Specifies a Lower Exemption Amount For Persons who are Blind or who have Lost Limbs, which is Misleading.** In practice, despite the apparent distinction in existing property tax law between these veterans and totally disabled veterans, a veteran that is blind in both eyes or has lost of the use of two or more limbs is rated totally disabled by the U.S. Department of Veterans Affairs. Thus, virtually all claimants qualify for the higher exemption level of \$100,000, or \$150,000 for those below the income threshold. The version of Section 205.5 which this bill repeals provides the same exemption amount regardless of the type of disability, consistent with actual practice. (While the Constitution specifically references these three disability types, it doesn't specify that the amount of the exemption must be varied.) For simplification of the tax code and to protect disabled veterans who unknowingly claim the lower exemption amount, it is recommended that the varying amounts of the exemption for disability type be eliminated. The following suggested amendments to Section 205.5 correct this error, but additional amendments will also be required through the remainder of the section.

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(a) Property that is owned by, and that constitutes the principal place of residence of, a veteran is exempted from taxation on that part of the full value of the residence that does not exceed one hundred thousand dollars (\$100,000) ~~forty thousand dollars (\$40,000)~~, if the veteran is blind in both eyes, ~~or has lost the use of two or more limbs as a result of injury or disease incurred in military service or that does not exceed one hundred thousand dollars (\$100,000)~~, if the veteran ~~or~~ is totally disabled as a result of injury or disease incurred in military service. The ~~forty thousand dollar (\$40,000) exemption shall be sixty thousand dollars (\$60,000)~~, and the one hundred thousand dollar (\$100,000) exemption shall be one hundred fifty thousand dollars (\$150,000), in the case of an eligible veteran whose household income as defined in Section 20504 does not exceed the amounts specified in Section 20585.

6. **Current Law Lacks an Updated Definition of Blindness.** The California Department of Veterans Administration has informed the Board that the definition of “blind” provided in Section 205.5 does not reflect the current definition used by the Veterans' Administration. The author may wish to update the definition of “blind” to incorporate the most recent definition used by the Veterans' Administration.

(e) For purposes of this section, being blind in both eyes means having a visual acuity of 5/200 or less, or concentric contraction of the visual field to 5 degrees or less;...

COST ESTIMATE:

This bill would not impact the Board's administrative costs.

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REVENUE ESTIMATE:**Background, Methodology, and Assumptions**

Counties report that, for the 1999-2000 roll, there were 16,309 disabled veterans' exemptions with a total exempt value of \$1,238,751,000. The distribution by size of exemption is:

Group	Exemption Value	Count	Exempt Value Total	Average Exempt Amount
A	\$40,000 or less	1,758	\$52,907,000	\$30,095
B	Between \$40,000 and \$100,000	13,934	\$1,102,209,000 ^e	\$79,102
C	Over \$100,000	617	\$83,635,000 ^e	\$135,551

^e Estimated based on estimates for one county and actual figures for all other counties.

Exemptions falling into Group A, \$40,000 or less, will not be affected by this bill.

Exemptions in Group C, over \$100,000, represent exemptions to qualifying low income totally disabled veterans. The exempt amount for each of these after the reduction on January 1, 2001 will be \$60,000. The estimated decrease in exempt amount after the reduction for this group of totally disabled veterans is:

$$\$83,635,000 - [617 \times \$60,000, \text{ or } \$37,020,000] = \$46,615,000$$

Under this bill, the property tax revenue reduction from the basic 1 percent property tax rate effective January 1, 2001 for these properties is \$46,615,000 x 1 percent or \$466,150.

After the scheduled reduction, the exempt value for nearly all of Group B will be \$40,000 each. Group B includes a small number of claimants that meet the income requirements for the \$150,000 low income totally disabled veterans' exemption but that have an exempt value that is not over \$100,000. (Because the assessed value of their homes is less than \$100,000, they do not need to claim the full amount of the exemption that is otherwise available to them.) Most counties do not keep track of these claimants since many counties only require those who are filing for an exemption over \$100,000 to fill out the income statement. Based on data gathered from the handful of counties that do keep track of this, there are at least an additional 147 disabled veterans statewide that will be eligible, after the reduction, for the \$60,000 low income totally disabled veterans' exemption. Since it is likely that the total number of claimants that qualify for the low income totally disabled veterans' exemption is relatively small and the difference in tax for each exemption of this type is small, \$20,000 x 1 percent or \$200, the revenue loss for Group B has not been adjusted for the low income exemptions.

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The estimated maximum decrease in exempt amount after the reduction for Group B is:

$$\$1,102,209,000 - [13,934 \times \$40,000 \text{ or } \$557,360,000] = \$544,849,000$$

The maximum revenue reduction from the basic 1 percent property tax rate for these properties under this bill is \$544,849,000 x 1 percent or \$5,448,490.

Revenue Summary

If the scheduled reductions in the disabled veterans' exemption are eliminated under this bill, property tax revenues at the basic one percent tax rate would be reduced by the following amounts in 2001-02.

Low income totally disabled veterans' exemption	\$ 466,150
Other disabled veterans' exemption	<u>5,448,490</u>
	\$5,914,640

It is likely that this reduction will grow slightly over time due to several factors including the Proposition 13 inflation factor, the slow and steady increase in the number of exemptions, and the recovery and growth of residential market values.

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